

# **Washington State Auditor's Office**

## **Audit Report**

### **Audit Services**

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Report No. 58000

**CITY OF ARLINGTON**

Snohomish County, Washington

January 1, 1995 Through December 31, 1995

Issue Date: January 24, 1997

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**CITY OF ARLINGTON**  
**Snohomish County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With Laws And Regulations  
At The Financial Statement Level (Plus Additional State Compliance  
Requirements Per RCW 43.09.260)**

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Mayor and Council  
City of Arlington  
Arlington, Washington

We have audited the financial statements, as listed in the table of contents, of the City of Arlington, Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 17, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the City of Arlington is the responsibility of the city's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the city's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the city complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the city's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the city and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are (1) failures to follow requirements or violations of prohibitions contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements or (2) considerable failure to comply with the laws and the *Constitution of the State of Washington*, the city's ordinances and orders, and the requirements of the State Auditor's Office. The results of our tests of compliance disclosed an instance of noncompliance that may materially affect the financial statements, the effects of which have not been corrected in the city's financial statements. The material instance of noncompliance noted during our audit is disclosed in the accompanying Schedule of Federal Findings.

We considered the instance of noncompliance in forming our opinion on whether the city's financial statements are fairly presented, in all material respects, in conformity with the prescribed basis of accounting and the statutory provisions described in paragraph four of this report.

Except for the material instance of noncompliance disclosed in the Schedule of Federal Findings accompanying this report, the results of our tests of compliance indicate that, with respect to the items tested, the city complied, in all material respects, with the provisions referred to in the third and fourth paragraphs of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that the city had not complied, in all material respects, with those provisions. Further, we noted an immaterial instance of noncompliance disclosed in the Schedule of Findings accompanying this report.

We also noted matters involving noncompliance with laws and regulations related to federal financial assistance which were reported to the city's management in our report on specific requirements for major programs and in the Schedule of Federal Findings and Schedule of Questioned Costs.

This report is intended for the information of management and the mayor and council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

October 17, 1996

CITY OF ARLINGTON  
Snohomish County, Washington  
January 1, 1995 Through December 31, 1995

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**Independent Auditor's Report On Internal Control Structure  
At The Financial Statement Level**

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Mayor and Council  
City of Arlington  
Arlington, Washington

We have audited the financial statements of the City of Arlington, Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 17, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the city is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the city, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted a reportable condition that we believe to be a material weakness, which is identified in the Schedule of Federal Findings accompanying this report.

We also noted matters involving compliance with laws and regulations related to federal financial assistance which were reported to the city's management in our report on specific requirements for major programs and in the Schedule of Federal Findings and Schedule of Questioned Costs.

This report is intended for the information of management and the mayor and council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

October 17, 1996

CITY OF ARLINGTON  
Snohomish County, Washington  
January 1, 1995 Through December 31, 1995

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Schedule Of Findings

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1. City Officials Should Improve Control Over Traffic Citations

Our review of the traffic citations issued by the City of Arlington Police Department indicated numerical control over citation books was not maintained. We found that no comparison was made between citations issued to officers and those paid at the district court or the traffic violations bureau. City officials have police officers sign the back cover of the citation book as a receipt for each book they receive. The back cover receipt is used to enter the citation book into the log book to track the citations issued to officers. When a ticket is issued for a violation by an officer and when paid at the district court or traffic violations bureau, the record is entered by the police department into the county wide Records Management System (RMS). However, RMS reports are not used to verify all the citations issued to each officer have been accounted for by comparison with the log book. In addition, the police department files a copy of the paid tickets in numerical sequence but again it is not used to verify that all the tickets are accounted for by comparison with the back cover receipt or log book.

RCW 46.64.010 states in part:

Every traffic enforcement agency in this state shall provide in appropriate form traffic citation containing notices to appear which shall be issued in books with citations in quadruplicate and meeting the requirements of this section.

The chief administrative officer of every such traffic enforcement agency shall be responsible for the issuance of such books and shall maintain a record of every such book and each citation contained therein issued to individual members of the traffic enforcement agency and shall require and retain a receipt for every book so issued.

RCW 46.64.010 also states:

Such chief administrative officer shall also maintain or cause to be maintained in connection with every traffic citation issued by an officer under his supervision a record of the disposition of the charge by the court or its traffic violations bureau in which the original or copy of the traffic citation was deposited.

Every record of traffic citations required in this section shall be audited monthly by the appropriate fiscal officer of the government agency to which the traffic enforcement agency is responsible.

The police department and the traffic violations bureau both prepare records of the tickets issued by officers for violations. However, neither considered that they were not accounting for all tickets issued to the officers by comparison with the log book and/or back cover receipts.

City officials are unable to track the citations from issuance to disposition without verifying that all the tickets are accounted for. Tickets could be missing and the city would not detect it in a timely manner.

We recommend city officials improve control over traffic citations. Procedures should be established to verify that all citations issued receive a formal disposition.

#### Auditee's Response

*The city attorney, Steven J. Peiffle, responded to the preliminary draft of our Schedule of Findings, in a letter dated December 20, 1996. The attorney's response follows below:*

*The city has implemented a procedure to review and verify citation number sequence from reports generated by the Records Management System (RMS). These changes should ensure that all citations issued are accounted for and have a formal disposition.*

#### Auditor's Concluding Remarks

We would like to thank the city attorney for his response to our report findings. From review of his response, and review of the memorandum describing changes being made to citation control procedures, it appears the issues delineated in our report are being addressed. We will review these areas in our subsequent audit.



**CITY OF ARLINGTON**  
**Snohomish County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Financial Statements And Additional  
Information**

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Mayor and Council  
City of Arlington  
Arlington, Washington

We have audited the accompanying statements of Fund Resources and Uses Arising from Cash Transactions of the various funds of the City of Arlington, Snohomish County, Washington, for the fiscal year ended December 31, 1995. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b to the financial statements, the city prepares its financial statements on the cash basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

As described in the Schedule of Federal Findings and Schedule of Questioned Costs which accompanies this report, the city was unable to provide sufficient documentation to support approximately \$226,512 in General Fund charges to the Airport Fund for administration, police and fire services. In addition, the city has not resolved \$482,000 in questioned General Fund charges to the Airport Fund from our 1994 audit. The federal granting agency may require that the General Fund reimburse the Airport Fund for question costs which cannot be adequately documented and supported. As a result, we are not able to determine if the General and Airport Fund financial statements present fairly, in all material respects, the recognized revenues and expenditures in accordance with the prescribed basis of accounting.

In our opinion, except as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the recognized revenues and expenditures of the funds of the City of Arlington for the fiscal year ended December 31, 1995, on the cash basis of accounting described in Note 1b.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Long-Term Debt and Schedule of State Financial Assistance are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 17, 1996, on our consideration of the city's internal control structure and a report dated October 17, 1996, on its compliance with laws and regulations.

Brian Sonntag  
State Auditor

October 17, 1996

**CITY OF ARLINGTON**  
**Snohomish County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Supplementary Information**  
**Schedule Of Federal Financial Assistance**

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Mayor and Council  
City of Arlington  
Arlington, Washington

We have audited the financial statements of the City of Arlington, Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 17, 1996. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the City of Arlington taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag  
State Auditor

October 17, 1996

**CITY OF ARLINGTON**  
**Snohomish County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With The General Requirements  
Applicable To Federal Financial Assistance Programs**

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Mayor and Council  
City of Arlington  
Arlington, Washington

We have audited the financial statements of the City of Arlington, Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 17, 1996.

We have applied procedures to test the city's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Relocation assistance and real property acquisition
- Subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the city's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the city had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the mayor and council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

October 17, 1996

**CITY OF ARLINGTON**  
**Snohomish County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With Specific Requirements**  
**Applicable To Major Federal Financial Assistance Programs**

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Mayor and Council  
City of Arlington  
Arlington, Washington

We have audited the financial statements of the City of Arlington, Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 17, 1996.

We have also audited the city's compliance with the requirements applicable to its major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995. Those requirements include:

- types of services allowed or unallowed
- matching, level of effort, or earmarking
- reporting
- special tests and provisions related to (CFDA 20.106) The Airport Improvement Act requirement that all airport revenue be expended for capital or operating costs of the airport as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments*
- claims for advances and reimbursements
- amounts claimed or used for matching

The management of the city is responsible for the city's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the city's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures for the Department of Transportation Airport Improvement Program (CFDA 20.106) disclosed that the city did not comply with the requirements that the airport receive fair market value rent for airport property and restrict the use of airport generated revenue to airport capital and operating cost. In our opinion, it is necessary for the city to comply with the requirements for the major program listed above.

In our opinion, except for the instance of noncompliance with the requirements applicable to the Department of Transportation Airport Improvement Program (CFDA 20.106) referred to in the fourth paragraph of this report and identified in the accompanying Schedule of Federal Findings and Schedule of Questioned Costs, the City of Arlington complied, in all material respects, with the requirements referred to in the second paragraph that are applicable to its major federal financial assistance program for the fiscal year ended December 31, 1995.

This report is intended for the information of management and the mayor and council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

October 17, 1996

**CITY OF ARLINGTON**  
**Snohomish County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Internal Control Structure Used In  
Administering Federal Financial Assistance Programs**

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Mayor and Council  
City of Arlington  
Arlington, Washington

We have audited the financial statements of the City of Arlington, Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 17, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated October 17, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the city complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the city's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated October 17, 1996.

The management of the city is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting.



- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
  - Cash receipts
  - Cash disbursements
  - Receivables
  - Accounts payable
  - Purchasing and receiving
  - Payroll
  - Inventory control
  - Property, plant, and equipment
  - General ledger
- **General Requirements**
  - Political activity
  - Davis-Bacon Act
  - Civil rights
  - Cash management
  - Federal financial reports
  - Allowable costs/cost principles
  - Drug-Free Workplace Act
  - Administrative requirements
- **Specific Requirements**
  - Types of services
  - Matching, level of effort, earmarking
  - Reporting
  - Special requirements
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **General Requirements**
  - Relocation assistance and real property acquisition
  - Subrecipient monitoring

- **Specific Requirements**
  - Eligibility

During the fiscal year ended December 31, 1995, the city expended 94 percent of its total federal financial assistance under the major federal financial assistance program.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the city's major federal financial assistance program, which is identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the city's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Federal Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, we noted a reportable condition involving the accounting and/or administrative internal control structure and its operation that we believe to be a material weakness as defined above. The condition, which is identified in the Schedule of Federal Findings accompanying this report, was considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the city's compliance with requirements applicable to its major federal financial assistance program for the fiscal year ended December 31, 1995, and this report does not affect our report thereon dated October 17, 1996.

This report is intended for the information of management and the mayor and council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

October 17, 1996

CITY OF ARLINGTON  
Snohomish County, Washington  
January 1, 1995 Through December 31, 1995

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Schedule Of Federal Findings

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1. City Officials Should Receive Fair Market Value For Airport Property And Utilize Revenues For Airport Purposes

The U.S. Airport and Airway Improvement Act of 1982, as amended, (AAIA) requires that the city: (1) Maintain a fee and rental structure designed to make the airport as self-sustaining as possible and (2) Restrict the use of airport-generated revenue to airport capital and operating costs. Our test of U.S. Department of Transportation, Federal Aviation Administration (FAA) grant assistance provided to the City of Arlington disclosed that the city did not comply with these requirements. The Airport Fund did not receive approximately \$75,000 in rental income during 1995 and airport revenue was used to support approximately \$226,512 in General Fund expenditures without sufficient support during this period. City officials have been informed by U.S. Department of Transportation, Office of Inspector General auditors, who have also audited this activity, that they may require the city to reimburse the Airport Fund for costs which cannot be adequately documented and supported.

As a result of these conditions, we are questioning the unsupported costs and qualifying our opinion on the city's financial statements. The conditions could also jeopardize future federal assistance funding. The same conditions were reported in our prior audit report which included \$482,000 in questioned costs pertaining to the 1993 through 1994 period which have not been resolved.

AAIA Section 511(a)(9), and assurance number 24 included with the grant agreements from the FAA, requires the city maintain a fee and rental structure which makes the airport as self-sustaining as possible. Additionally, FAA Order 5190.6A, Airport Compliance Requirements, paragraph 4-18(1), requires that when the city's airport property is utilized for nonaviation use, it must produce income for the airport at fair market value (FMV) and be available to meet airport expenses. Also, such property may not be rented at a discount to support community nonprofit organizations or subsidized nonairport objectives.

We determined the city did not receive FMV for nearly 20 acres of airport property having an annual FMV of approximately \$75,000. The property was used for other municipal purposes and rented at a discount to support a nonprofit organization.

Officials thought the use of the property was allowable because FAA personnel had observed the use of the property and because the use mitigates some of the impact on the community from the effect of development at the airport.

AAIA Section 511(a)(12), requires all revenue generated by the city's airport be expended for the capital or operating costs of the airport that are directly and substantially related to the actual air transportation of passengers or property. FAA Order 5190.6A, paragraph 4-

20a(2)(c)(ii), states that clearly supportable and documented charges made by a governmental entity to reimburse that entity for payments of capital or operating costs of the airport may be allowed, but any charge must be supported by documented evidence. It also provides that a flat payment "in-lieu-of taxes" without such documentation is not acceptable.

The city was unable to provide sufficient documentation to justify administrative charges assessed the Airport Fund, or the "in-lieu-of" tax payments for fire and police service charges were airport operating costs, as described below:

- The city assessed the Airport Fund \$43,340 in administrative charges determined to be the airport's share of the city's overhead expenses, such as payroll, accounting, and purchasing expenses. However, these charges were not supported.
- The city assessed the Airport Fund \$120,120 and \$63,052 respectively for police and fire protection. These "in-lieu-of" tax payments were the city's estimate of the cost of police and fire protection for the airport. However, the city was unable to document the charge reflected actual police and fire costs.

In total, the city had unsupported assessments against airport generated revenues amounting to \$226,512. Officials charged the airport for the services because they thought the charges were a fair allocation of actual costs.

We recommend that the city officials:

- a. Establish and implement procedures that ensure the airport receives fair market value for airport property;
- b. Establish and implement procedures to ensure airport-generated revenues are properly used; and
- c. Reimburse the Airport Fund for any portion of the \$226,512 of questioned costs identified in this report that cannot be adequately documented and supported.

Auditee's Response

*The city attorney, Steven J. Peiffle, responded to the preliminary draft of our Schedule of Federal Findings in a letter dated December 20, 1996. The attorney's response follows below:*

*The City of Arlington has been engaged in substantial discussions throughout the course of 1996 concerning the audit conducted by the Office of the Inspector General (OIG) and their draft finding that the airport has not received fair market value. I am pleased to say that the City of Arlington has made progress in demonstrating to the satisfaction of federal officials that the city has been receiving fair market value for airport property and is using revenues for airport purposes.*

*We received a letter from the Federal Aviation Administration (FAA) dated June 24, 1996. The letter stated that the city would not be required to reimburse the Airport Fund for administrative charges for 1992 through 1995, including the \$43,340. The city has modified its procedures so that billing and collection of airport rent, which was formerly performed by the city clerk's office, is now handled by airport administrative staff, thus eliminating the need for most administrative charges against the airport fund.*

*The city and the FAA also appear to have reached agreement concerning the methodology of assessments against the airport fund for police and fire protection. The FAA and OIG seem to be*

*satisfied that it is appropriate to charge the airport fund on a proportionate basis based on the assessed valuation of property on the airport versus assessed valuation of property within the city.*

*The proportionate percentage of assessed valuation on the airport was approximately 16.3% of the total assessed valuation within the City. In 1995, the airport fund was assessed \$120,120 for police protection charges, slightly less than the \$131,670.26 which could have been charged under the now approved methodology.*

*Likewise, the FAA has accepted the proportionate assessed valuation methodology for fire protection as well. In 1995, the airport was assessed \$63,052 for fire protection charges; the assessed valuation methodology would have authorized charges to the airport of \$65,126.97.*

*Concerning your recommendations that city officials establish and implement procedures to ensure the receipt of fair market value for airport property and to ensure airport-generated revenues are properly used, we believe this has been done.*

*Thank you for providing the city with an opportunity to comment on your draft finding.*

#### Auditor's concluding Remarks

We would like to thank the city attorney for his response to our report findings. From review of his response, it is clear that the city and the FAA are working to resolve our findings and the findings of the U.S. Department of Transportation, Office of Inspector General. We will forward our findings and his response to interested federal agencies and to the Attorney General's Office for resolution. We would also like to take this opportunity to express our appreciation for the assistance and cooperation we received from the employees and officials of the city throughout the audit.

CITY OF ARLINGTON  
Snohomish County, Washington  
January 1, 1995 Through December 31, 1995

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Schedule Of Questioned Costs

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<u>Grant/Entitlement</u>	<u>Questioned Cost</u>	<u>Explanation Reference</u>
Department of Transportation, Federal Aviation Administration - Airport Improvement Program	\$ 226,512	See Federal Finding 1

CITY OF ARLINGTON  
Snohomish County, Washington  
January 1, 1995 Through December 31, 1995

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Status Of Prior Findings

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The finding contained in the prior audit report was resolved as follows:

1. City Officials Should Receive Fair Market Value For Airport Property And Utilize Revenues For Airport Purposes

Resolution: *Unresolved*



CITY OF ARLINGTON  
Snohomish County, Washington  
January 1, 1995 Through December 31, 1995

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Status Of Prior Questioned Costs

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<u>Grants</u>	Audit Report <u>Year</u>	Costs <u>Questioned</u>	<u>Current Status</u>	
			<u>Resolved</u>	<u>Unresolved</u>
Department of Transportation, Federal Aviation Administration - Airport Improvement Program	1995	\$ 482,000		X